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OFFICE OF THE INSPECTOR GENERAL

9

SEMIANNUAL REPORT

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APRIL 1, 1997 ~ SEPTEMBER 30, 1997

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The Office of the Inspector General (OIG) is an independent organization charged with reporting to the Tennessee Valley Authority (TVA) Board of Directors and Congress on the overall efficiency, effectiveness, and economy of TVA programs and operations. The OIG meets this responsibility by conducting audits, investigations, and other reviews.

The OIG focuses on the prevention, identification, and elimination of (1) waste, fraud, and abuse; (2) violations of laws, rules, or regulations; and (3) inefficiencies in TVA programs and operations.

If you want to report any matter involving TVA programs, operations, or employees, you should call the OIG Hotline or write the Inspector General's office.

**TVA
INSPECTOR
GENERAL**

Hotline

Call toll free:
1-800-323-3835
423-632-3550 (Knoxville)

Tennessee Valley Authority
400 West Summit Hill Drive ET 4C
Knoxville, Tennessee 37902-1499



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

George T. Prosser
Inspector General

October 31, 1997

TO THE TVA BOARD OF DIRECTORS AND THE UNITED STATES CONGRESS

This semiannual report describes accomplishments of our office for the six-month period ending September 30, 1997.

During this reporting period, we completed 30 audits which identified \$552,000 in questioned costs and more than \$10.5 million in funds that could be used more effectively. Our auditors emphasized contract issues while also examining topics as diverse as TVA's efforts at eliminating potentially hazardous chemicals from electrical equipment and TVA's protection of sensitive information contained in its Integrated Business System. We also conducted 24 special projects, typically at the request of management, which identified or realized cost savings totaling about \$5.7 million.

Our investigations group completed 77 investigations, substantiating allegations in almost 25 percent of the cases we investigated. During this reporting period, our investigations resulted in \$480,951 in potential or actual recoveries, 7 indictments, and 3 convictions. Further, as a result of our investigations of alleged misconduct, 3 TVA employees resigned and administrative action was taken against 11 others.

This, our eleventh year of service to TVA, has been marked by our continuing efforts to find ways TVA can save and spend money more wisely and to identify fraud and abuse affecting the agency. With sadness, we mourn the passing of Fred P. Vichich, an OIG charter member who joined the OIG as a special agent after serving in that capacity with the FBI for 12 years. Fred, who was responsible for many of the OIG's successes prior to his recent retirement, was eulogized as dedicated to his family, work, and friends. We will remember Fred as we persevere in supporting TVA's goals and maintain our dedication to hard work, integrity, and getting results.

Sincerely,

A handwritten signature in black ink, appearing to read "George T. Prosser", is written over the typed name.

George T. Prosser

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This report summarizes the activities and accomplishments of TVA's OIG during the six-month period ending September 30, 1997.

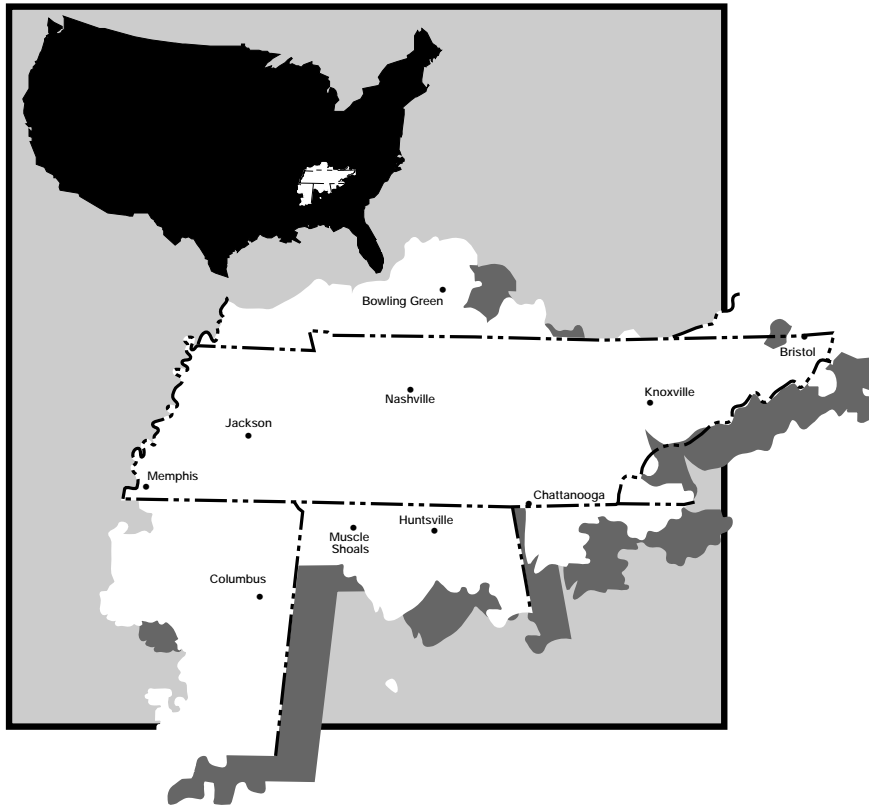
We continued our efforts to support TVA's goals by providing quality service with a reduced workforce. We completed 30 audits which identified \$552,000 in questioned costs and more than \$10.5 million in funds that could be used more effectively. Twenty-four special projects identified \$5.7 million in cost savings. We also completed 77 investigations which led to almost \$481,000 in potential or actual recoveries, 7 indictments, and 3 convictions. In addition, 3 TVA employees resigned as a result of our investigations, and administrative action was taken against 11 others.

Our audit activities included performance reviews of TVA programs, processes, and systems; and compliance and preaward audits of TVA contractors. Representative audit activities included reviews of TVA's management of electrical equipment containing polychlorinated biphenyls and controls over sensitive information in TVA's Integrated Business System. Our contract reviews included audits of consulting, engineering, and maintenance contracts.

Our Audit group also conducts special project reviews of high-profile issues at management's request. One project found the Land Between The Lakes program, a land management and recreational program, compared favor-

ably with similar operations in the state and federal government in almost every respect. Special projects also included reviews and assessments of TVA's preferred hotel and conference discounts, TVA's spending patterns for the end of fiscal year 1996, and the potential for cost savings through the use of a preferred providers organization for workers' compensation medical services.

Our investigative activities included investigation of false claims by contractors and various misconduct issues. Our investigations of alleged fraudulent per diem claims submitted by contractor employees during this reporting period led to one conviction, four indictments, and sentences involving restitution and penalties of more than \$158,000. Our investigations of employee misconduct included a finding that one employee committed theft and misused a TVA credit card, while another used the TVA telephones to make personal long-distance calls. In the environmental area, the OIG participated in a multi-agency investigation of alleged pumping of raw sewage into a tributary of the Tennessee River. In addition, the OIG has agreed to provide investigative personnel to serve on a proposed Environmental Crime Joint Task Force, which will enhance law enforcement resources in identifying and prosecuting environmental criminals.



*TVA's 14,466
employees serve
an 80,000-square-
mile region
spanning seven
states.*

TVA is a federal corporation responsible for developing and conserving the natural resources of the Tennessee River Valley.

TVA's 14,466 employees are involved in economic, natural resource, and agricultural development and in the production of low-cost electricity. The power system is funded by power sales, and TVA's other programs are funded primarily by congressional appropriations.

TVA is governed by a three-member Board of Directors appointed by the President and confirmed by the Senate.

Craven Crowell is the Chairman, and Johnny H. Hayes and William H. Kennoy are Directors.

TVA's goals are Customer Driven, Employee Sensitive, Environmentally Responsible, and Growth Oriented. TVA's vision is "to be the recognized world leader in providing energy and related services, independently and in alliances with others, for society's global needs."

Organization

The OIG's Audit Operations unit consists of four departments, two of which are devoted to contract-related topics and high-profile special project customer requested services. Two other departments focus on performance, financial, and ADP-related issues.

The OIG's Investigative Operations unit consists of an investigative services and hotline group and two investigative departments. One department focuses on contract issues, workers' compensation cases, and employee integrity matters; the other department focuses on environmental issues, nuclear issues, and benefits and entitlement programs.

Office Authority

The TVA Board of Directors administratively established the OIG during October 1985. During its early years of operation, the OIG operated much like its statutory counterparts and exercised subpoena powers granted by a provision in a TVA appropriations bill. When Congress enacted the Inspector General Act Amendments of 1988, TVA's OIG became 1 of 33 statutory offices whose Inspector General was appointed by the agency head. TVA's Inspector General is independent and subject only to the general supervision of the Board of Directors.

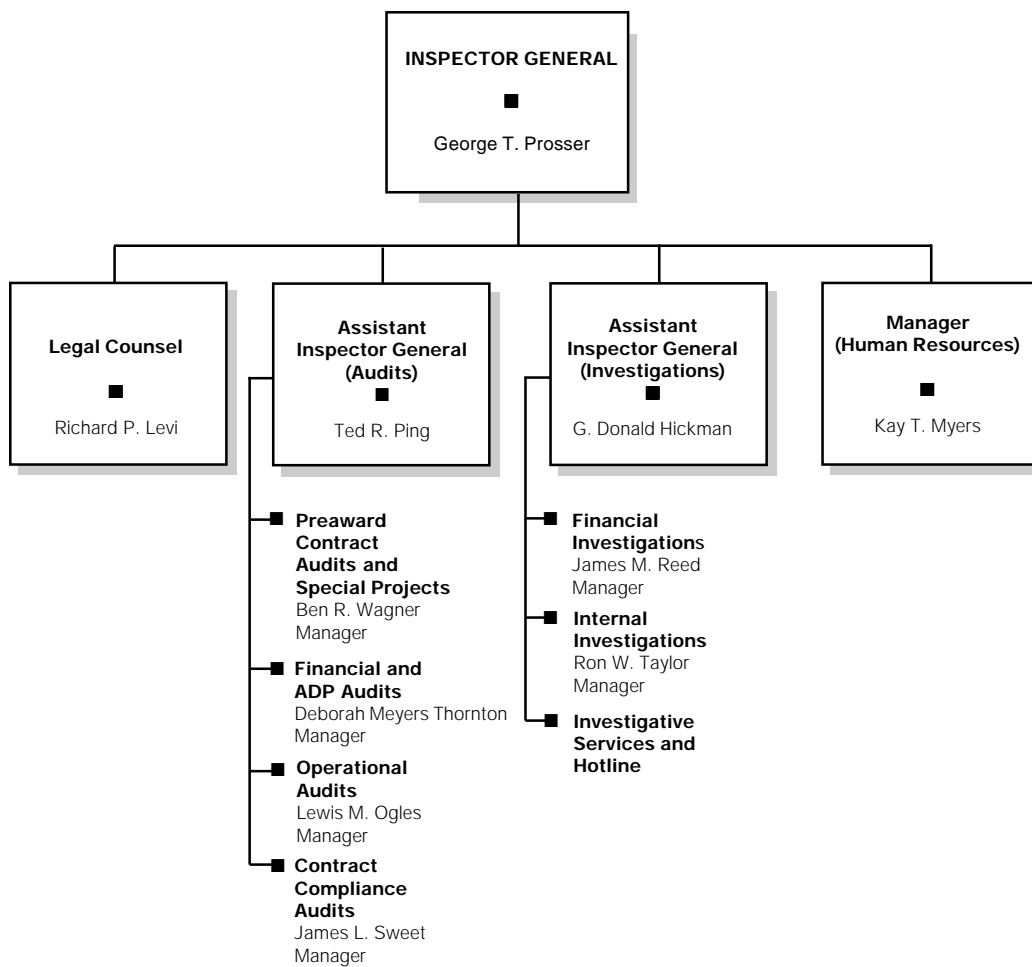
George T. Prosser became TVA's third Inspector General on April 1, 1994.

Staffing and Budget

The OIG's offices are in the TVA headquarters in Knoxville, Tennessee. The OIG also has investigative satellite offices in Chattanooga, Tennessee, and Huntsville, Alabama.

The OIG's fiscal year 1997 budget is about \$7.3 million, and during this reporting period, the OIG had 83 employees.

OFFICE OF THE INSPECTOR GENERAL





Partners in Education: Committed to Excellence & Vision

PARTNERING WITH GRESHAM MIDDLE SCHOOL

The OIG has participated in community outreach through a school partnership with Knoxville's Gresham Middle School since 1992. At a ceremony on August 21, 1997, we celebrated the beginning of our sixth year as Partners In Education with Gresham. TVA's Chairman Craven Crowell attended a cer-



Paul Williams, Principal, Gresham Middle School, and TVA Chairman Craven Crowell discuss the beginning of the sixth year as Partners in Education with Gresham.

emony with Inspector General George Prosser, which highlighted the OIG's efforts working with the school and its supporters. The OIG continued with its commitment in helping give Gresham students

the opportunity for an optimal learning experience. Employees voluntarily work on projects designed to carry out that mission. Following are highlights of recent activities.

COMMITMENT TO EXCELLENCE

During the 1996-1997 school year, over 90 percent of Gresham's sixth grade students successfully participated in at least one quarter of our Commitment To Excellence Program, which provides opportunities for students to set and achieve academic goals. Students who successfully met their goals in a grading period were rewarded with prizes and the opportunity to go on a field trip.

FUND RAISING

In February 1997, we held our third annual Chili Cook-Off to raise funds for Gresham. This is a fun event where OIG employees and

local restaurants get a chance to display their culinary skills,



Left to right: Scott Bacon, Knox County Schools; George Prosser, TVA Inspector General; Paul Williams, Principal, Gresham Middle School; and Bill Kennoy, TVA Director, at the 1997 Chili Cook-Off.

while attendees discover how many different ways there are to fix chili and vote for their favorites. We had no lack of judges as attendees this year included current and former OIG employees, representatives from Gresham, TVA friends, family members, TVA Director Kennoy, and even several local television reporters. In addition to having a good time and eating some very good chili, we raised \$1,100 which Gresham used for their school computer networking project, which was completed in time for the current school year.

ENVIRONMENTAL CENTER

Gresham is in the process of developing an Environmental Center which currently includes an outdoor classroom, trails, and a weather station. The Center's ecosystem plan includes additional trails, gardens, and a water garden which is near completion. This project has been supported by the Gresham staff, students, and PTA; the TVA OIG; Knox County Schools; The University of Tennessee; the Boy Scouts; the Knoxville City Council; community groups; and local businesses. The Environmental Center will be dedicated during a Spring 1998 ceremony.

YOUTH ART MONTH

Original art works from Gresham's art classes taught by Christine Harness were displayed for two weeks in March on the TVA Concourse in celebration of Youth Art Month. Works by 40 students, ages 11 to 13, included water color, tempera, pencil, crayon, and mixed media masks, still lifes, abstracts, portraits, and sketches of TVA dams. The sketches were donated to our office and are on display in our conference room.

OTHER ACTIVITIES

Other OIG activities included sponsoring a tee at the Golf Tournament for Technology, which raised funds for purchasing computers and classroom technology equipment, sponsoring two students for the 8th grade field trip, and sponsoring a new science award honoring two students for All Grades Awards Day.

We are grateful to the staff and students of Gresham for allowing us to participate in this program. The relationships we have developed and the knowledge that we have helped contribute to Gresham's success make this continuing partnership a true pleasure.

Audits are initiated from (1) the OIG annual workplan, (2) issues identified by the OIG subsequent to the annual workplan, (3) issues identified by cooperative efforts with TVA management, or (4) concerns raised by TVA management or others. During this reporting period, we issued 30 audit reports that identified over \$552,000 in questioned costs and almost \$10.6 million in funds which could be put to better use (see Appendix 1).

Summary of Representative Audits

Our audits included performance reviews of TVA programs, processes, and systems, as well as compliance and preaward audits of TVA contractors.

TVA'S POLYCHLORINATED BIPHENYLS ELIMINATION STRATEGY

The term polychlorinated biphenyls, or



PCBs, describes a class of synthetic organic chemicals. For years, PCBs have been used in many electrical and

high-temperature industrial applications. In the electric utility industry, the primary use of PCBs has been as insulating fluids in transformers and capacitors. However, PCBs have been determined by the Environmental Protection Agency (EPA) to represent a potential risk to human health and the environment.

TVA has a significant amount of electrical equipment containing PCBs. Federal regulations generally allow the continued use of this equipment provided certain requirements related to PCB recordkeeping, marking, storage, disposal, and spill cleanup are met. The regulations also authorize EPA to impose penalties for noncompliance.

Our audit focused on the adequacy of TVA's PCB elimination efforts, the potential risks associated with the existing inventory, and the cost to TVA of managing its inventory. In summary, we found TVA has had some success in reducing the amount of equipment containing PCBs, but a more concerted effort may be needed.

TVA management is considering what actions should be taken to address our findings.

CONTROLS OVER SENSITIVE INFORMATION IN THE INTEGRATED BUSINESS SYSTEM

TVA's general ledger system, the Integrated Business System (IBS), was implemented on October 1, 1993. The general ledger system receives information through direct entry or from feeder systems for processing into the general ledger. Access to sensitive information is controlled through the use of an identification (ID) and password and the assignment of system privileges.

We found the controls in IBS adequately protect TVA from disclosure of sensitive information as covered by the Privacy Act. However, we identified opportunities to strengthen controls in the following areas: (1) notice of access to sensitive information, (2) conflicting IBS access privileges to sensitive information, (3) access to sensitive information through IBS training IDs or organization IDs, (4) periodic review of IBS users' access privileges, (5) feeder system owner participation in IBS access authorization process, and (6) written policies and procedures for authorizing access to sensitive information.

TVA management has taken or agreed to take action to strengthen the controls identified in our findings.

INSURANCE PROGRAM FOR TVA CONTRACTORS

TVA paid \$23.6 million over 4.5 years under three contracts with a company providing workers' compensation and general liability insurance to TVA for contractors working at TVA's nuclear and fossil and hydro plants.

Our audit focused on compliance with contract terms. In summary, we found (1) claim costs paid by the company were properly supported and paid in compliance with the contract terms and (2) premiums for the 1994 policy year were paid in accordance with the contract terms. However, TVA paid the company about \$230,000 to cover third-party medical claims processing expenses which were billed as claim costs.

TVA management agreed to consider our findings when the contract renewal is negotiated.

PREAWARD AUDIT FOR ENGINEERING SERVICES

We audited a contractor's proposal to provide engineering and design services for TVA's Hydro Automation Program. At the time of our review, TVA had not determined if the work performed under the contract would be



based on fixed-price-per-plant, cost-reimbursable, or a combination of the two. Therefore, the contractor submitted two proposals—one cost-reimbursable, the other fixed-price. The total contract amount was expected to be about \$19.7 million over eight years with an estimated \$6.34 million for the base two-year term of the contract. The contractor submitted cost data for a cost-reimbursable proposal on a two-year base contract as well as a firm fixed-price proposal for projects to automate 3 of TVA's 29 hydro plants.

We audited the rates for the cost-reimbursable proposal and applied the results to the fixed-price proposal as well. We found the proposed markup rates on salaries were overstated and not supported by historical or forecast cost data. Subsequent rate revisions submitted by the contractor were also overstated due to the inclusion of unallowable expenses. Likewise, markups on materials and purchases and subcontractor costs were overstated due to the inclusion of unallowable expenses.

AUDIT OF CONSULTING CONTRACT

We reviewed TVA's \$5.6 million in payments under multiple contracts to a management consulting firm. We found the firm had billed markups on subcontract labor as high as 83.33 percent on some contracts, although we also determined that the consultant informed TVA under one contract proposal that its markups would be from 25 to 33 percent.

SUPPLIER MANAGED INVENTORY PROGRAM

The Supplier Managed Inventory (SMI) program was implemented by TVA's Materials Management and Purchasing organizations to reduce material and administrative costs and increase productivity. The SMI program removed low-dollar, high-turnover materials from TVA's storerooms and placed them in open bins in various TVA work areas.

We audited the internal controls related to the SMI program. We found that the internal control structure of the SMI program related to materials management was weakened by suppliers not adhering to the established internal controls and by TVA not properly ensuring that the controls were followed. We found that (1) the total cost of SMI materials could not be readily determined, (2) numerous invoicing problems resulted in TVA paying SMI suppliers an estimated \$67,000 for costs that were not adequately supported, and (3) the SMI program was not controlled and did not contain reliable data.

TVA management has taken or agreed to take action to resolve our findings.

AUDIT OF MAINTENANCE CONTRACTOR

We audited \$40.3 million in services performed by a joint venture group to provide modification and supplemental maintenance services for TVA's Fossil and Hydro Power facilities. Our audit covered non-manual labor costs, travel costs, per diem costs, and relocation costs.

We noted that a change initiated by TVA's Contracting Officer from actual travel costs to a daily per diem rate in 1993 saved TVA an estimated \$1.1 million in travel costs.

We also found that the contractor generally complied with the contract payment terms except for certain questioned costs involving labor, per diem, and travel costs. Management recovered a portion of those questioned costs.

AUDIT OF NUCLEAR CONTRACTOR

At the request of TVA management, we audited two contracts with a contractor providing various engineering services for TVA's nuclear power program. Our audit objectives were to determine if the invoiced costs for the project teams complied with the contract.

The first contract we reviewed provided for construction, startup, engineering, and maintenance services provided to the Watts Bar Nuclear

Plant (WBN). TVA paid the contractor \$23.2 million for costs billed under this contract. Included in these services were billings for a project support team. Our audit addressed only the \$4.4 million billed under the contract for project team work.



Under the second contract reviewed, TVA paid the contractor (as of April 14, 1996) \$7.6 million of the contract ceiling of \$31.64 million. The paid amount included \$2.4 million for a 13-member construction plant project team from September 1994 through August 1995 and an 8-member operating plant project team from September 1995 through February 1996 at WBN. TVA was invoiced a monthly charge plus overtime and escalation for both project teams under the contract.

TVA management is considering what actions should be taken to resolve our findings.

**REVIEW OF TVA'S ANNUAL
FINANCIAL STATEMENT AUDIT**

In accordance with the TVA Act and Basic TVA Power Bond Resolution, TVA annually prepares financial statements accompanied by the opinion of a certified public accounting firm. TVA contracted with Coopers & Lybrand (C&L), L.L.P., to audit TVA's fiscal year 1996 financial statements.

C&L issued an unqualified opinion on the fiscal year 1996 financial statements. In addition, C&L issued a report on TVA's internal control structure, a report on TVA's compliance with laws and regulations, and a report to management identifying other internal control issues.

As provided by the Inspector General Act and the Chief Financial Officers Act, we reviewed C&L's audit of TVA's fiscal year 1996 financial statements to determine if their audit work reasonably complied with generally accepted auditing standards, government auditing standards, and other significant contractual requirements. Our audit concentrated on the planning, workpaper, and reporting aspects of C&L's audit.

In our opinion, C&L's audit of TVA's fiscal year 1996 financial statements reasonably complied with the professional auditing standards and significant contractual requirements.

In the last six months, we substantiated allegations in 19 of the 77 investigations we closed—almost 25 percent. Our cases have resulted in \$480,951 in potential or actual recoveries, seven indictments, and three convictions. Representative investigations are highlighted below.

Summary of Representative Investigations

ENVIRONMENTAL CASES

The OIG participated in a multiagency investigation involving allegations that a city public works department was dumping raw sewage into a tributary of the Tennessee River.

The investigation revealed a history of residential sewage being dumped into the tributary. During the course of the investigation, the state of Tennessee initiated administrative/civil action against the city for violating the state Water Quality Control Act.

Recommendations for additional federal, civil, and administrative actions are pending.

The interagency relationships created by this investigation and others led to a proposal to form an Environmental

Crimes Joint Task Force (ECJTF). ECJTF, as proposed, would consist of personnel from TVA's OIG, the Federal Bureau of Investigation, and other agencies. The mission of the ECJTF would be to (1) focus enhanced law enforcement resources against individuals and companies involved in environmental crimes and (2) prosecute these individuals and companies through application of the most effective federal and state criminal and civil statutes.

WORKERS' COMPENSATION CLAIMS

Based on our investigative efforts, the Office of Workers' Compensation Programs (OWCP) declared forfeitures on over \$170,000 as follows:

- A former TVA electrician, sentenced during the previous reporting period, fraudulently obtained over \$149,000 in OWCP benefits.
- During a prior investigation, we identified a former TVA electrician who failed to report to OWCP that he owned and operated a store with gross receipts in excess of \$1.6 million. (He also worked as an electrician using an alias and a social security number not assigned to him.) During this reporting period, OWCP adjusted the prior forfeiture to \$152,887.41—an increase of \$21,175 over the prior declared forfeiture.

FALSE CLAIMS—TEMPORARY LIVING EXPENSES

We continued our efforts to reduce TVA contract costs by identifying fraudulent and ineligible temporary living expenses (TLE) paid to TVA contractors. During this reporting period, our investigations led to realized and potential recoveries of over \$208,000.

Conviction

A former Browns Ferry Nuclear Plant (BFN) contractor employee for four contractors—Bechtel Power Corporation, Stone & Webster Engineering Company, Pacific-Atlantic Technical Services Company, and BCP Technical Services, Inc.—pled guilty to making false claims to fraudulently acquire over \$35,000 in TLE. (Sentencing is scheduled for December 1997.)

Indictments

Four former United Energy Services Corporation (UESC) contractor employees at WBN were indicted as follows:

- Three counts of making false statements and 41 counts of making false claims to obtain over \$26,000 in TLE.
- Three counts of making false statements and 53 counts of making false claims to obtain more than \$38,000 in TLE.

- Twenty-four counts of making false claims to obtain over \$13,000 in TLE.
- Eighty counts of making false claims to obtain over \$47,000 in TLE.

Sentencing

- A former UESC WBN contractor pled guilty to making false claims to obtain TLE. A federal court sentenced the former contractor employee to four months' home detention and five years' probation; additionally, the court ordered him to pay \$37,890 restitution.
- A former BFN Bechtel contractor employee pled guilty to making false claims to obtain over \$39,000 in TLE. A federal court sentenced the former contractor employee to six months' home detention and two years' probation; additionally, the court ordered him to pay full restitution.

False Claims Act

The civil False Claims Act provides for treble damages and penalties for presenting a false claim to the U.S. government. Two individuals, one of whom also pled guilty, agreed to civil settlements of over \$82,000.

FALSE CLAIMS—CONTRACT-RELATED MISCONDUCT

- During an earlier reporting period, our investigation revealed that a TVA subcontractor (a Missouri foundry) falsified test results and heat calculations so substandard parts would meet contract specifications. Subsequently, these parts were shipped to the Johnsonville Fossil Plant (JOF). As a result of our investigation, the company pled guilty to a felony false statement.

Our investigation identified, in addition to other parts, five suspect burner-sleeve assemblies at JOF, which were provided by the foundry. During this reporting period, the foundry delivered replacement burner-sleeve assemblies, valued at \$80,400, to JOF.

- Investigation revealed a concessionaire at a TVA facility defrauded TVA of over \$3,500. The individual was bound by a license agreement to pay TVA a set percent of the concession's gross sales each month; however, our review of the individual's private accounting records revealed two sets of figures for each business day—the actual amount earned and the amount reported to TVA. During an investigative interview, the subject admitted underreporting profits to TVA, and our

investigation showed the amount underreported to TVA during the contract period averaged 43 percent of gross sales. As a result of our investigation, TVA revoked the contract and initiated action to recover owed funds. (Prosecution was declined.)

EMPLOYEE MISCONDUCT

Investigation revealed a TVA employee engaged in misconduct, including theft, falsification of records, and misuse of a TVA American Express card and a TVA vehicle. Among other things, the employee was under threat of arrest for a personal check returned due to insufficient funds, and the employee issued a TVA check to acquire money to pay the debt. This individual resigned as a result of our investigation. (Prosecution was declined.)

TELEPHONE MISUSE

- A former TVA employee pled guilty to a Class A misdemeanor for theft of government property—third-party billing to TVA extensions of personal long-distance calls. A federal court sentenced the former employee to three years' probation and ordered the individual to pay full restitution of \$8,325.

- Over a seven-month period, a TVA employee made over 400 unofficial long-distance telephone calls using TVA extensions and a TVA telephone credit card. (Approximately half of these calls took place on weekdays during the employee's work hours.) The employee resigned and made full restitution—\$4,521—to TVA for the cost of the calls. (Prosecution was declined.)

MAIL CENTER POLICY

Our investigation of allegations involving the TVA mail center prompted new training and guidelines for mail center personnel. Investigation revealed a courier took two inexpensive, "undeliverable" promotional gifts from the mail, one of which was addressed to a current TVA employee. During our investigation, we discovered several mail center employees commonly took such material if they could not locate the addressee, and we found the mail center did not follow set policy for the disposition of undeliverable mail. As a result of our findings, TVA Administrative Services management issued thorough written guidelines on mail center issues and instituted policy training for all mail center employees.

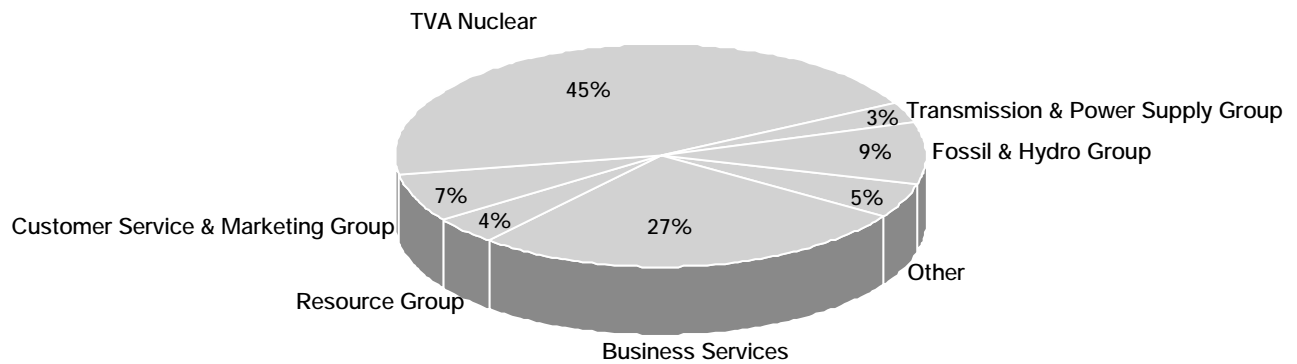
NUCLEAR SAFETY ISSUES

During this reporting period, we completed 12 investigations involving nuclear-related issues, including five cases involving complaints filed with the U.S. Department of Labor under Section 211 of the Energy Reorganization Act. In each nuclear-related case we investigated, we found insufficient evidence to show employee misconduct. We investigated the Section 211 complaints at TVA management's request—to provide factual and independent information regarding potential employee misconduct related to hindering the expression of nuclear-safety concerns.

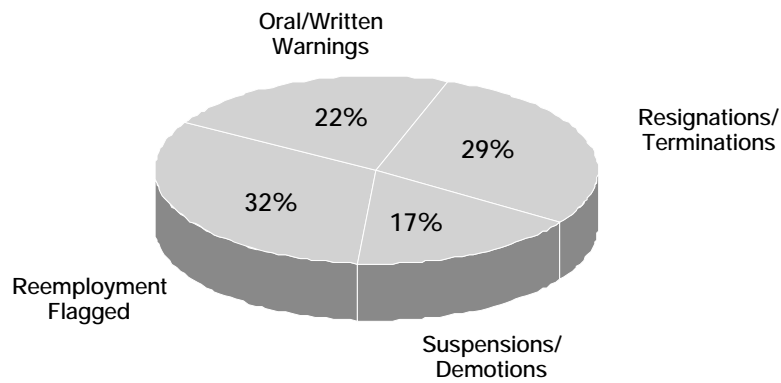
BACKGROUND SUITABILITY INVESTIGATIONS

TVA saved \$9,425 by using the OIG to perform three background investigations rather than the U.S. Office of Personnel Management. These investigations ensure employees being hired for sensitive positions meet the applicable requirements.

The breakdown of the 75 closed investigations involving other TVA organizations are shown below.

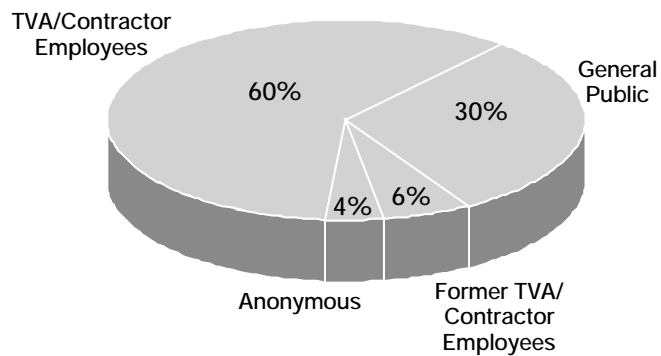


Administrative and Disciplinary Actions Since
October 1, 1992*
Total = 236



*Prosecutive referrals are shown at Appendix 3.

Calls Made to the OIG Hotline
During this Reporting Period
Total = 83



In addition to conducting audits and investigations, our office continues to perform special projects upon request by our customers, primarily the Board of Directors, TVA executive management, and the Congress. During this reporting period, we conducted 24 such projects which identified about \$5.7 million in potential savings. Discussed below are the highlights of six of the more significant completed projects.

LAND BETWEEN THE LAKES COMPARATIVE STUDY

We conducted a review which compares statistical data of the Land Between The Lakes (LBL) program to other similar operations in the federal and state sectors. We determined that LBL operations compared favorably to other facilities surveyed. The results included facts such as: (1) LBL offers a wider variety of activities and receives higher than average visitation; (2) LBL's annual operating costs are below average to mid-range, based on costs per visit and costs per acre; (3) LBL average salaries are higher than other facilities surveyed but are about one-half of operating costs, which is the lowest in the survey; (4) staffing levels required to operate LBL are about average, based on the numbers of

acres and visits per employee; and (5) LBL recovers about one-third of operating costs and generates more recreation revenue per visit than other federal facilities surveyed.

PREFERRED HOTEL AND CONFERENCING PROGRAM

TVA's Preferred Hotel and Conferencing Program was initiated to reduce travel costs by negotiating discounts with hotels located in high travel areas for TVA employees and contractors. This program has provided an estimated savings to TVA of about \$654,000 annually. Our review was conducted to assess the adequacies of controls to ensure the program is operating effectively. Based on the current number of preferred hotels, TVA could save about \$600,000 more if the program was mandatory.

Additionally, we found that administrative improvements could be made in the processing of preferred hotel billings to ensure accuracy, decrease administrative time, and prevent the possibility of unauthorized, fraudulent, or erroneous billings.

END OF FISCAL YEAR 1996 SPENDING PATTERNS

We analyzed budget and spending patterns for the largest organizations in TVA for cost classifications that are somewhat discretionary. We found that total spending for discretionary accounts increased around \$75 million over budget in September 1996. The primary reasons for the increases included (1) monthly accruals, (2) unvouchered purchases, and (3) unplanned year-end spending.

EDUCATIONAL INSTITUTION CONTRACTS

At the request of the Board of Directors, we reviewed TVA records to identify all educational institution contracts initiated on or after July 14, 1993. We identified 397 contracts. Of these contracts, 181 were active as of April 22, 1997. We identified an additional 331 contracts that were supplemented on or after July 14, 1993.

We identified opportunities in this area for management to streamline business operations. Our review of the data indicated TVA has multiple contracts with the same educational institution, and TVA's business operations could be streamlined by establishing master

contracts with these educational institutions. TVA Procurement has undertaken a consolidation initiative for service requirements which include these educational institution contracts.

FEDERAL EMPLOYEES' COMPENSATION ACT - INPATIENT PREFERRED PROVIDERS ORGANIZATIONS

We completed an assessment to determine the potential for cost savings through use of a preferred providers organization (PPO) for workers' compensation medical services. PPOs represent a form of managed care in which providers agree to accept discounted fees in exchange for the expectation that the patient volume will increase or at least be maintained. In summary, we determined that potential savings for inpatient (claimant admitted to a healthcare facility) care to be about \$450,000 annually, but found little savings potential for outpatient medical services.

While the potential savings for inpatient services is promising, we identified two factors that could offset these savings:

- It may be difficult to find an established PPO that includes a sufficient number of providers who are geographically

located so as to provide services to TVA workers' compensation claimants.

- OWCP is currently working on a proposal to establish maximum reimbursement fee schedules for inpatient hospital care on a national basis which could reduce or eliminate the need for a PPO at TVA.

HEALTH BENEFITS REVIEW

TVA operates a "self-insured" health benefits plan and contracts with third-party administrators to process and pay claims submitted under the plan. We conducted a review of the claims paid during 1993 and 1994 and identified questioned costs totaling about \$2.4 million. The reasons for the questioned costs were (1) overcharges by healthcare providers which were not detected by the third-party administrator; (2) related overcharges for employee copayments; (3) improper claims administration (e.g., claims that should have been paid by Medicare, claims paid twice, etc.); and (4) related interest costs on the total overcharges.

■ APPENDICES

**OIG AUDIT REPORTS ISSUED DURING
THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1997**

The following table summarizes final audit reports issued by the OIG from April 1 through September 30, 1997.

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
5/2/97	97-019C	Westinghouse Electric Corporation - Contract 94NNX-112361	\$20,556	\$20,556	
5/2/97	97-020C	Westinghouse Electric Corporation - Contract 92NNP-79283A	15,195	15,195	
5/27/97	97-014P	Mississippi Delta Fiber Cooperative			
6/5/97	97-011S	Matrix Management, Inc.	125,351		
6/6/97	97-006F	Internal Control Structure of the Maintenance Controlled Inventory Program	67,000	67,000	
6/6/97	97-031S	Pacific Engineering Corporation - Subcontractor Preaward RFP AH-193371			\$231,000
6/11/97	97-042S	Co-Development, Inc.			
6/26/97	97-046S	The Indus Group, Inc. - Preaward Audit			1,847,450
7/8/97	94-035P-01	TVA's Polychlorinated Biphenyls Elimination Strategy			
7/11/97	97-028S	Siemens Power Corporation - Preaward Audit			825,000
7/21/97	97-047S	SAP America, Inc. - Preaward Audit			4,700,500
7/28/97	97-053S	Allied Electrical - Preaward Audit			
8/4/97	97-056S	East Tennessee Mechanical Contractors, Inc.			14,380
8/8/97	97-018S	Argonaut Insurance Co. - Contracts 93PGN89978B and 96P6G139776	244,000		
8/11/97	95-033F-02	FY 1994 Appropriations Obligated			

DATE ISSUED	REPORT NUMBER	REPORT TITLE	QUESTIONED COSTS	UNSUPPORTED COSTS	FUNDS TO BE PUT TO BETTER USE
8/11/97	97-026P	Peppertree Fontana Village, Inc. - Contract TV-27427A	\$16,499		
8/11/97	97-048S	TSW - International Preaward Audit			\$2,944,100
8/14/97	96-057C-01	G-UB-MK Contract 92PGN-77052E-03 Review of Nonmanual Labor, Per Diem, Travel, and Relocation Costs	58,987		
8/22/97	97-040S	Tool Smith, Inc.			
8/26/97	95-033F-01	FY 1994 Appropriated Funds Obligated and Appropriated Funds Budgeting Process			
9/2/97	97-013P-03	Contractor Removal of Unused Materials From TVA Nuclear Plants			
9/3/97	97-058S	KEMA Consulting	3,293		22,669
9/15/97	97-013P-02	Contractor Removal of Unused Hazardous Materials From TVA Fossil Plants			
9/15/97	97-061F	Review of TVA's Annual Financial Statement Audit - FY 1996			
9/16/97	97-057F-01	Chattanooga Supply Company - Contract P-95X8F-118654			
9/22/97	97-005F	Controls in IBS That Protect Sensitive Information			
9/25/97	97-013P-04	Contractors' Removal of Unused Hazardous Materials at TVA Sites			
9/26/97	97-033C	Stone & Webster Construction Company, Inc. - Contract P-96N5B-161365-000			
9/30/97	97-013P-01	Purchasing of Chemicals and Chemical Supplies			
9/30/97	97-043C	McDaniel Fire Systems - Contract 97P6G-182447	1,504		
Total	30		\$552,385	\$102,751	\$10,585,099

**OIG'S REPORT ON MANAGEMENT DECISIONS FOR THE
SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1997**

The following Tables I and II summarize management decisions made by TVA management on OIG recommendations contained in final audit reports. The tables reflect amounts which were questioned and recommended to be put to better use and track the disposition of these amounts through management decision.

**TABLE I
TOTAL QUESTIONED AND UNSUPPORTED COSTS**

AUDIT REPORTS	NUMBER OF REPORTS	QUESTIONED COSTS	UNSUPPORTED COSTS
A. For which no management decision has been made by the commencement of the period	3	\$343,813	\$0
B. Which were issued during the reporting period	9	552,385	102,751
Subtotal (A + B)	12	\$896,198	\$102,751
C. For which a management decision was made during the reporting period	8	840,655	67,000
1. Dollar value of disallowed costs	6	529,655	0
2. Dollar value of costs not disallowed	2	311,000	67,000
D. For which no management decision has been made by the end of the reporting period	4	55,543	35,751
E. For which no management decision was made within six months of issuance	0	0	0

TABLE II
FUNDS TO BE PUT TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. For which no management decision has been made by the commencement of the period	1	\$51,202
B. Which were issued during the reporting period	7	10,585,099
Subtotal (A + B)	8	\$10,636,301
C. For which a management decision was made during the reporting period	5	5,898,752
1. Dollar value of disallowed costs	5*	5,706,652
2. Dollar value of costs not disallowed	1*	192,100
D. For which no management decision has been made by the end of the reporting period	3	4,737,549
E. For which no management decision was made within six months of issuance	0	0

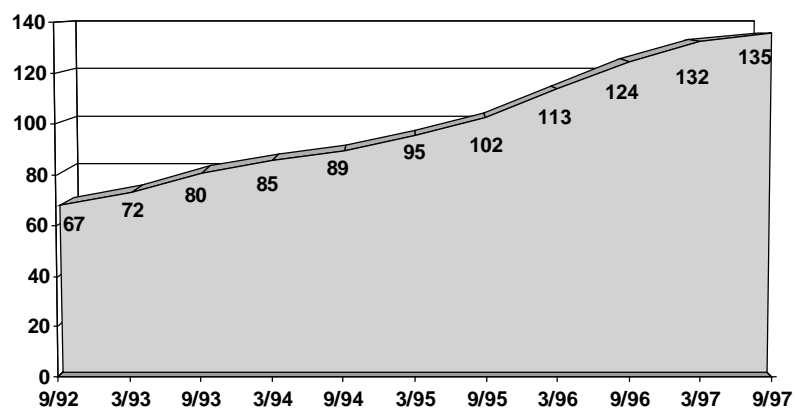
* The number of reports will differ from the arithmetic total when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

INVESTIGATIVE REFERRALS AND PROSECUTIVE RESULTS

INVESTIGATIVE REFERRALS	SUBJECTS	RESULTS THIS PERIOD
Subjects referred to U.S. Attorneys	15	7 Indictments 3 Convictions 6 Declinations
Subjects referred to other agencies for investigative or administrative action	1	OWCP declared \$170,391 in overpayments.
TOTAL	16	

Convictions Since October 1, 1990

(Cumulative)





Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1499

Craven Crowell
Chairman, Board of Directors

November 4, 1997

TO THE UNITED STATES CONGRESS:

We are providing TVA's Report on Final Actions on Inspector General audit recommendations, in keeping with Section 5(b) of the Inspectors General Act of 1978, as amended.

The members of the TVA Board appreciate the work of the Inspector General's office in helping TVA improve its efficiency, productivity, and competitiveness as we strive to meet our goals and position TVA to compete in the global marketplace of the 21st century.

Sincerely,

A handwritten signature in black ink that reads 'Craven Crowell'.

Craven Crowell

Enclosure

TVA MANAGEMENT'S REPORT ON FINAL ACTIONS FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 1997

The following Tables I and II summarize final action taken by management on OIG audit reports. The tables reflect amounts which were agreed to by management and track the disposition of these amounts through final action. Table III contains the explanations by audit report for final actions not taken within one year of the management decision dates.

**TABLE I
DISALLOWED COSTS**

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	9	\$6,282,733
B. On which management decisions were made during the reporting period	8	529,655
Subtotal (A + B)	17	\$6,812,388
C. For which final action was taken by management during the reporting period		
1. Amounts that were recovered by management	7*	433,659
2. Amounts that were not recovered by management	2*	109,221
D. For which management has taken no final action by the end of the reporting period	10*	6,269,508

* The number of reports will differ from the arithmetic total when a final audit action includes both amounts recovered and amounts not recovered for a single audit report.

TABLE II
RECOMMENDATIONS THAT FUNDS BE PUT
TO BETTER USE

AUDIT REPORTS	NUMBER OF REPORTS	AMOUNTS AGREED TO BY MANAGEMENT
A. For which final action by management had not been taken by the commencement of the period	5	\$4,864,013
B. On which management decisions were made during the reporting period	5	5,706,652
Subtotal (A + B)	10	\$10,570,665
C. For which final action was taken by management during the reporting period		
1. Dollar value of recommendations implemented by management	7*	1,077,802
2. Dollar value of recommendations not implemented by management	3*	5,095,550
D. For which management has taken no final action by the end of the reporting period	3*	4,397,313

* The number of reports will differ from the arithmetic total when a final audit action includes both recommendations implemented and recommendations not implemented for a single audit report.

TABLE III
EXPLANATIONS FOR FINAL ACTIONS NOT TAKEN

AUDIT REPORT NUMBER	DATE ISSUED	DISALLOWED COSTS	FUNDS PUT TO BETTER USE	EXPLANATION FINAL ACTION NOT TAKEN
Health Care Fraud Controls 94-020P	9/27/94	\$1,000,000	N/A	Based on the results of Deloitte & Touche's review, TVA questioned \$2 million in healthcare costs. Resolution is still pending.
Electric Power Research Institute - Preaward Audit for Tailored Collaboration Master Agreement 95-030S	5/30/95	\$578,000	\$1,078,313	TVA management took final action on these recommendations in October 1997.
FD Engineers & Constructors, Inc. 95-043C	2/21/96	\$2,125,933	0	TVA management is currently negotiating the resolution of these recommendations.
Team Associates, Inc. 96-010C	4/18/96	0	0	TVA management took final action on these recommendations in October 1997.
Assessment of TVA's Retroactive Demand Billing 96-016P	8/14/96	0	\$1,911,000	TVA management took final action on these recommendations in October 1997.
Review of Onyx's Financial Conditions 96-035P	6/6/96	\$1,073,291	\$1,408,000	TVA is in the process of recovering the questioned costs. In addition, the resolution of the contract performance issues is still pending.

N/A - Not Applicable

NOTE: This table excludes two reports in judicial appeal according to the reporting guidelines of the Inspector General Act.

OIG REPORTING REQUIREMENTS

Information required by the Inspector General Act of 1978, as amended, is included in this semiannual report as indicated below.

Section 4(a)(2) — Review of Legislation and Regulations	*
Section 5(a)(1) — Significant Problems, Abuses, and Deficiencies	Pages 5-21
Section 5(a)(2) — Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	Pages 5-21
Section 5(a)(3) — Recommendations Described in Previous Semiannual Reports on Which Corrective Action Has Not Been Completed	Appendix 4
Section 5(a)(4) — Matters Referred to Prosecutive Authorities and the Prosecutions and Convictions That Have Resulted	Appendix 3
Sections 5(a)(5) — Summary of Instances Where Information and 6(b)(2) Was Refused	**
Section 5(a)(6) — Listing of Audit Reports	Appendix 1
Section 5(a)(7) — Summary of Particularly Significant Audits	Pages 7-12
Section 5(a)(8) — Status of Management Decisions for Audit Reports Containing Questioned Costs	Appendix 2
Section 5(a)(9) — Status of Management Decisions for Audit Reports Containing Recommendations That Funds Be Put to Better Use	Appendix 2
Section 5(a)(10) — Summary of Unresolved Audit Reports Issued Prior to the Beginning of the Reporting Period	***
Section 5(a)(11) — Significant Revised Management Decisions	****
Section 5(a)(12) — Significant Management Decisions With Which the Inspector General Disagreed	*****

* There were no significant legislation or regulations reviewed during this reporting period.

** There were no instances where information or assistance was unreasonably refused or not provided.

*** There were no unresolved audit reports in this category during this reporting period.

**** There were no significant revised management decisions.

***** There were no significant management decisions with which the Inspector General disagreed.

HIGHLIGHTS

	FOR SEMIANNUAL REPORTING PERIODS				
	SEPT 30, 1997	MAR 31, 1997	SEPT 30, 1996	MAR 31, 1996	SEPT 30, 1995
ANNUAL BUDGET (In Millions of Dollars)	7.3	7.3	7.3	7.3	8.5
CURRENT STAFFING	83	86	94	95	95
AUDITS & SPECIAL PROJECTS					
AUDITS IN PROGRESS					
Carried Forward	34	41	42	29	37
Started	46	29	50	41	45
Canceled	(10)	(14)	(6)	(4)	(10)
Completed	(30)	(22)	(45)	(24)	(43)
In Progress at End of Reporting Period	40	34	41	42	29
AUDIT RESULTS (Thousands)					
Questioned Costs	\$552	\$602	\$2,555	\$2,600	\$4,319
Disallowed by TVA	530	542	2,756	408	2,320
Recovered by TVA	434	434	1,167	460**	493
Funds to Be Put to Better Use					
Agreed to by TVA	\$10,585	\$1,671	\$28,276	\$10,909	\$9,004
Realized by TVA	5,707	5,262	31,576	3,899	8,112
	1,078	4,494	22,950	3,859	8,143
SPECIAL PROJECT RESULTS					
Completed	24	15	19	7	
Cost Savings Identified/ Realized (Thousands)	\$5,700	\$38,200	\$3,000	\$5,300	
INVESTIGATIONS					
INVESTIGATION CASELOAD					
Carried Forward	157*	157*	153*	138*	158
Opened	56	96	110	133	128
Closed	77	93	105	117	(147)
In Progress at End of Reporting Period	139	160	158	154	139
INVESTIGATIVE RESULTS (Thousands)					
Potential/Actual Recoveries	\$481	\$2,439	\$2,364	\$1,020	\$939
Cost Savings	9	2,377	3,374	4,611	1,112
ADMINISTRATIVE AND DISCIPLINARY ACTIONS					
Recommended (# of Cases)	12	21	24	32	30
Actions Taken (# of Subjects)	14	15	17	35	21
PROSECUTIVE ACTIVITIES (# of Subjects)					
Referrals	15	22	17	13	17
Indictments	7	1	1	7	5
Convictions	3	8	12	12	7

* Adjusted from previous semiannual reports.

** Excludes excess recovery of \$211.

